TRANSALTA RENEWABLES INC.

FIRST QUARTER REPORT FOR 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") contains forward-looking statements. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. See the Forward-Looking Statements section of this MD&A for additional information.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of TransAlta Renewables Inc. as at and for the three months ended March 31, 2015 and 2014 and should also be read in conjunction with the annual audited consolidated financial statements and MD&A contained within our 2014 Annual Report. In this MD&A, unless the context otherwise requires, 'we', 'our', 'us', 'TransAlta Renewables', and the 'Corporation' refer to TransAlta Renewables Inc. and 'TransAlta' refers to TransAlta Corporation and its subsidiaries. All dollar amounts in the tables presented in this MD&A are in thousands of Canadian dollars, unless otherwise noted. The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 *Interim Financial Reporting*. This MD&A is dated April 30, 2015. Additional information respecting the Corporation is available on SEDAR at www.sedar.com and on our website at www.transaltarenewables.com. Information on or connected to our website is not incorporated by reference herein.

OPERATIONS OF THE CORPORATION

TransAlta Renewables owns and operates 12 hydro facilities and 16 wind farms in Western and Eastern Canada and holds an economic interest in TransAlta's Wyoming Wind Farm. At March 31, 2015, our generating assets had 1,283 megawatts ("MW") of gross generating capacity[(1)] in operation (1,255 MW net interest[(1)]). The full capacity of the facilities in which we have an interest is 1,376 MW.[(1)] TransAlta manages and operates these facilities on our behalf under the terms of a Management, Administrative and Operational Services Agreement.

NON-IFRS MEASURES

We evaluate our performance using a variety of measures. Certain of these measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than net earnings attributable to common shareholders or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. See the Non-IFRS Measures section of this MD&A for additional information.

(1) We measure capacity as Net Maximum Capacity (see Glossary of Key Terms for definition of this and other key terms), which is consistent with industry standards. Capacity figures represent capacity owned and in operation unless otherwise stated. Gross capacity reflects the basis of consolidation of underlying assets owned, plus those in which we hold an economic interest. Net capacity deducts capacity attributable to non-controlling interest in these assets.

HIGHLIGHTS

Consolidated Highlights

3 months ended March 31	2015	2014
Production (GWh)(1)	**958**	981
Revenues	**68,156**	67,965
Operating income(2)	**32,544**	33,158
Comparable operating income(3)	**35,578**	37,523
Net earnings attributable to common shareholders	**19,650**	21,134
Comparable net earnings attributable to common shareholders	**19,876**	21,134
Comparable EBITDA(3)	**53,840**	55,662
Funds from operations(3)	**44,599**	46,354
Cash flow from operating activities	**41,083**	45,210
Cash available for distribution(3)	**30,283**	16,835
Net earnings per share attributable to common shareholders, basic and diluted(4)	**0.17**	0.18
Comparable net earnings per share(3)(4)	**0.17**	0.18
Funds from operations per share(3)(4)	**0.39**	0.40
Cash available for distribution per share(3)(4)	**0.26**	0.15
Dividends paid per common share(4)	**0.19**	0.19

As at	March 31, 2015	Dec. 31, 2014
Total assets	**1,979,365**	1,964,157
Total long-term liabilities	**732,387**	682,005

First Quarter Highlights

- Comparable earnings before interest, taxes, depreciation, and amortization ("EBITDA") and funds from operations ("FFO") both decreased $1.8 million in the quarter, primarily due to lower and closer to normal wind volumes and the effects of icing events and an unplanned substation outage in Eastern Canada, and lower income from our investment in the Wyoming Wind Farm due to lower wind volumes following above normal volumes last year, partially offset by higher wind volumes in Western Canada, and higher water resource from the early snow melt.
- Reported and comparable net earnings attributable to common shareholders decreased by $1.5 million and $1.3 million, respectively, in the first quarter, primarily due to the decrease in comparable EBITDA, partially offset by foreign exchange gains.
- Production decreased 23 gigawatt hours ("GWh") to 958 GWh compared to 2014, primarily due to lower wind volumes at the Wyoming Wind Farm, and lower wind volumes, icing events and an unplanned substation outage in Eastern Canada, partially offset by higher wind volumes and higher water resources from the early snow melt, at Western Canada wind and hydro facilities.
- Cash available for distribution ("CAFD") increased $13.4 million in the quarter, primarily due to an early payment on amortizing term debt in 2014, partially offset by lower FFO and higher sustaining capital expenditures.

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(1) Includes production from our economic interest in the Wyoming Wind Farm.

(2) This item is an Additional IFRS Measures. Refer to the Additional IFRS Measures section of this MD&A for further discussion of this item.

(3) These items are not defined under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings and cash flow trends more readily in comparison with prior periods' results. Refer to the Non-IFRS Measures section of this MD&A for further discussion of these items, including, where applicable, reconciliations to measures calculated in accordance with IFRS.

(4) Amounts in this and other tables are presented in whole numbers to the nearest two decimals.

SIGNIFICANT AND SUBSEQUENT EVENTS

Investment Agreement with TransAlta

On March 23, 2015, we entered into an investment agreement with TransAlta, pursuant to which we have agreed to acquire an economic interest based on the cash flows of TransAlta's Australian power generation and gas pipeline portfolio of assets ("Australian Assets") held by TransAlta Energy (Australia) Pty Ltd. ("TEA"), and fund the remaining construction costs for the South Hedland Power Station Project, for a combined value of approximately $1.78 billion (the "Transaction"). The Australian Assets presently consist of 575 MW of power generation from six gas-fuelled operating facilities and the 150 MW South Hedland Project, as well as the recently commissioned 270 kilometre gas pipeline. The investment agreement provides the Corporation with certain protections in relation to exchange rates, the cost to complete the construction of South Hedland, and the timing of the commencement of its commercial operation. Our investment will consist of the acquisition of securities of TEA which will provide the Corporation a priority return on invested capital, and tracking preferred shares issued by another subsidiary of TransAlta, which will provide an economic interest based on cash flows of the Australian Assets broadly equal to the underlying net distributable profits of TEA. TransAlta will continue to own, manage, and operate the Australian Assets.

On the successful closing of the Transaction, we expect to realize the following benefits:

- Initial dividend increase of 9 per cent ($0.07 per share on an annualized basis) upon closing of the Transaction, and another 6-7 per cent increase once South Hedland is fully commissioned.
- Initial mid-teen per cent increase in CAFD per share. When South Hedland is fully commissioned, currently scheduled for mid-2017, we expect to also increase our CAFD by approximately $127 million, or 140 per cent.
- Long-term, highly contracted cash flows.
- Increase in the scale and diversity of the Corporation.
- Provides a Right of First Offer on select potential growth initiatives in Australia.
- Increases the size of the public float by approximately 50 per cent.

We intend to finance the Transaction through a combination of cash and shares issued to TransAlta. We are raising the cash consideration payable to TransAlta through an equity offering.

TransAlta will receive $1,284 million as consideration pursuant to the Transaction through a combination of Common Shares and Class B Shares in the capital of the Corporation as well as cash. The Class B Shares will provide voting rights equivalent to the Common Shares and are non-dividend paying, but will convert to Common Shares when the South Hedland project is fully commissioned. The number of Common Shares that TransAlta receives on the conversion of the Class B Shares will be adjusted based on the actual amount that we fund for the construction and commissioning of the South Hedland project relative to the budgeted costs. In the event that the construction amount funded by us exceeds the budgeted costs, TransAlta will receive fewer Common Shares upon conversion and, comparably, TransAlta will receive more Common Shares in the event that we fund less than the budgeted costs. The remaining budgeted costs to be funded by us in connection with the construction and commissioning of the South Hedland project are approximately $490 million, which are expected to be funded through a combination of internally generated cash flow and borrowings under a credit facility.

On April 8, 2015, we issued a final short form prospectus qualifying the distribution of 15,820,000 subscription receipts (each, a "Subscription Receipt") at a price of $12.65 per Subscription Receipt for gross proceeds of approximately $200 million. The offering closed on April 15, 2015. In addition, we granted an over-allotment option to the underwriters, exercisable at any time within 30 days following closing of the offering, to purchase up to 2,373,000 Subscription Receipts at the same price for gross proceeds of up to approximately $30 million. The underwriters exercised in part the over-allotment option and purchased 2,038,423 Subscription

Receipts. The over-allotment option closed on April 23, 2015. We expect to receive approximately $226 million in gross proceeds ($215 million in net proceeds).

The net proceeds from the sale of Subscription Receipts are being held by an escrow agent and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments) until the closing of the Transaction, unless a termination event occurs prior thereto or the Transaction does not close by July 31, 2015 (the "Termination Date"). If the closing of the Transaction does not occur on or before the Termination Date, or is terminated at any earlier time, the Subscription Receipts will be terminated and cancelled, and the full subscription price of the Subscription Receipts will be returned to holders of Subscription Receipts, together with their pro-rata portion of any interest earned thereon.

As the Transaction constitutes a related party transaction under applicable securities laws, a special committee consisting of our independent directors (the "Special Committee") was formed to review the Transaction and determine if it was in the best interest of the Corporation and its shareholders. The Special Committee retained independent technical, legal, tax and financial advisors, including Moelis & Company LLC as financial advisor, to provide advice, a valuation of the Transaction and a fairness opinion. The fairness opinion delivered to the Special Committee concluded that the consideration payable pursuant to the Transaction is fair, from a financial point of view, to the Corporation.

Based on its own evaluation and the advice of its advisors, the Special Committee negotiated the terms of the Transaction with TransAlta, including the consideration to be paid by the Corporation and recommended that the board of directors of the Corporation (the “Board”) approve the Transaction. The Board considered the recommendation of the Special Committee, which was made after consideration of the advice received by the Special Committee from financial and legal advisors and concluded (with directors that are also officers or former officers of TransAlta abstaining) that the Transaction is in the best interests of and fair to the Corporation, and recommend the approval of the Transaction by disinterested shareholders.

Closing of the Transaction is expected to occur in May 2015 and is subject to approval by the Corporation’s shareholders (excluding TransAlta). We have received the regulatory approvals.

Additional information on the Transaction is available in the prospectus filed under the Corporation’s profile on SEDAR at www.sedar.com.

Bond Issuance

On Feb. 11, 2015, we refinanced maturing debt at our Pingston hydro facility. Our share of gross proceeds was $45 million. The bonds bear interest at the annual fixed interest rate of 2.95 per cent, payable semi-annually with no principal repayments until maturity in May 2023. Proceeds were used to repay the $35 million secured debenture bearing interest at 5.28 per cent. Excess proceeds, net of transaction costs, are to be used for general corporate purposes.

RESULTS OF OPERATIONS

The comparable results of operations are as follows:

3 months ended March 31, 2015	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs of sales	Operating costs[1]	EBITDA	Revenues per produced MWh[2]	EBITDA per produced MWh[2]
Western Canada wind	418	363	17,826	1,293	5,039	11,494	49.11	31.66
Eastern Canada wind	616	457	47,694	2,013	4,053	41,628	104.36	91.09
Hydro	105	40	2,636	380	1,157	1,099	65.90	27.48
Corporate costs	-	-	-	-	3,415	(3,415)	-	-
Dividend income - Wyoming Wind Farm[3]	144	98	-	-	-	3,034	-	30.96
Total	**1,283**	**958**	**68,156**	**3,686**	**13,664**	**53,840**	**79.25**	**56.20**

3 months ended March 31, 2014	Gross installed capacity (MW)	Production (GWh)	Revenues	Royalties and other costs of sales	Operating costs[1]	EBITDA	Revenues per produced MWh[2]	EBITDA per produced MWh[2]
Western Canada wind	418	286	13,628	1,295	4,934	7,399	47.65	25.87
Eastern Canada wind	616	511	52,700	2,467	3,860	46,373	103.13	90.75
Hydro	105	21	1,637	237	1,054	346	77.95	16.48
Corporate costs	-	-	-	-	2,821	(2,821)	-	-
Dividend income - Wyoming Wind Farm[3]	144	163	-	-	-	4,365	-	26.78
Total	1,283	981	67,965	3,999	12,669	55,662	83.09	56.74

Western Canada Wind

Production for the three months ended March 31, 2015 increased 77 GWh compared to the same period in 2014 due to higher wind volumes.

Comparable EBITDA for the three months ended March 31, 2015 increased $4.1 million compared to the same period in 2014, primarily due to higher production and higher emission reduction credit sales.

Eastern Canada Wind

Production for the three months ended March 31, 2015 decreased 54 GWh compared to the same period in 2014, primarily due to lower and closer to normal wind volumes, icing events, and an unplanned substation outage.

Comparable EBITDA for the three months ended March 31, 2015 decreased $4.7 million compared to the same period in 2014, primarily due to lower production.

Hydro

Production for the three months ended March 31, 2015 increased 19 GWh compared to the same period in 2014, primarily due to higher water resource from the early snow melt in Western Canada.

Comparable EBITDA for the three months ended March 31, 2015 increased $0.8 million compared to the same period in 2014, primarily due to higher production at our facilities in Western Canada and insurance proceeds from an unplanned outage in prior periods, partially offset by an increase in operating costs due to planned and unplanned major maintenance work in Western Canada.

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(1) Excludes depreciation and amortization.
(2) The amounts per MWh are presented in whole dollars to the nearest two decimals.
(3) Dividend income from investment in preferred shares.

Corporate

For the three months ended March 31, 2015 corporate costs increased $0.6 million to $3.4 million, primarily due to regulatory costs and the higher G&A Reimbursement Fee following the April 2014 rate adjustment related to the acquisition of an economic interest in the Wyoming Wind Farm and contractual cost escalation.

Economic Interest in Wyoming Wind Farm

For the three months ended March 31, 2015, production at the Wyoming Wind Farm decreased 65 GWh to 98 GWh compared to the same period in 2014. The decrease is primarily due to lower wind volumes following above normal volumes last year.

Comparable EBITDA for the three months ended March 31, 2015 decreased $1.3 million compared to the same period in 2014, primarily due to lower production.

Dividends received on the preferred shares associated with the Wyoming Wind Farm during the first quarter of 2014 and 2015 are based on pre-tax earnings of TransAlta Wyoming Wind LLC during the months of December, January and February.

OTHER CONSOLIDATED RESULTS

Depreciation and Amortization

For the three months ended March 31, 2015, depreciation and amortization increased $0.1 million to $18.3 million compared to the same period in 2014, primarily due to the early retirement of certain assets, partially offset by an adjustment to depreciation.

During the quarter, we recognized an adjustment to give effect to an indemnity from TransAlta for the benefit of the Corporation in respect to a dispute for final disbursements in relation to a construction project completed prior to the formation of the Corporation. As a result, as at March 31, 2015, we recognized a receivable from TransAlta of $10.0 million offset by a reduction to PP&E of $8.2 million and the recognition of a liability of $1.2 million in excess of a previously recognized accounts payable amount.

Net Interest Expense

The components of net interest expense are shown below:

3 months ended March 31	**2015**	2014
Interest on debt	**8,986**	9,025
Interest on letters of credit and guarantees pledged by TransAlta	**21**	21
Interest income	**(39)**	(3)
Accretion of provisions	**261**	220
Net interest expense	**9,229**	9,263

For the three months ended March 31, 2015, net interest expense is comparable to the same period in 2014.

Income Taxes

A reconciliation of income taxes and effective tax rates on earnings excluding non-comparable items is presented below:

3 months ended March 31	**2015**	2014
Earnings before income taxes	**26,760**	28,184
Income attributable to non-controlling interest	**(1,073)**	(1,159)
Comparable earnings attributable to TransAlta Renewables shareholders subject to tax	**25,687**	27,025
Comparable income tax adjustments:		
Income tax expense related to writeoff of deferred income tax assets	**(226)**	-
Income tax expense	**6,037**	5,891
Comparable income tax expense	**5,811**	5,891
Comparable effective tax rate on earnings attributable to common shareholders (%)	**23**	22

Comparable income tax expense for the three months ended March 31, 2015 decreased compared to the same period in 2014, primarily due to lower comparable earnings, partially offset by lower dividend income not subject to tax.

The comparable effective tax rate on earnings attributable to common shareholders for the three months ended March 31, 2015 increased compared to the same period in 2014, due to lower dividend income not subject to tax.

Non-Controlling Interest

Natural Forces Technologies Inc. owns a 17 per cent interest in the Kent Hills 1 and 2 wind farms, which have 150 MW of gross generating capacity.

Net earnings attributable to the non-controlling interest for the three months ended March 31, 2015 decreased $0.1 million compared to the same period in 2014, primarily due to icing events.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk arises from our ability to meet general funding needs, engage in trading and hedging activities, and manage the assets, liabilities, and capital structure of the Corporation. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due in the most cost-effective manner.

Our liquidity needs are met through a variety of sources, including capital markets, cash generated from operations and funding from TransAlta. Our primary uses of funds are operational expenses, capital expenditures, distributions to non-controlling interest, interest and principal payments on debt, and dividends.

Financial Position

The following chart highlights significant changes in the Condensed Consolidated Statements of Financial Position from Dec. 31, 2014 to March 31, 2015:

	Increase/ (decrease)	**Primary factors explaining change**
Cash and cash equivalents	13,562	Timing of receipts and payments
Accounts receivable	11,610	Timing of customer receipts and seasonality of revenue and PP&E adjustment with TransAlta
Prepaid expenses	1,730	Annual insurance premiums paid in the period
Property, plant, and equipment, net	(22,217)	Depreciation and adjustment with TransAlta, partially offset by additions
Intangible assets	(1,966)	Amortization
Investment in preferred shares	11,199	Increase due to favourable changes in foreign exchange rates
Deferred income tax assets	692	Increase in income tax loss carryforwards
Accounts payable and accrued liabilities	675	Timing of payments
Long-term debt (including current portion)	10,658	Refinancing of our Pingston facility and unfavourable changes in foreign exchange rates, partially offset by principal repayments on the Amortizing Term Loan
Decommissioning and other provisions	751	Accretion and change in discount rate
Deferred income tax liabilities	6,183	Decreases in tax loss carryforwards and increases in taxable temporary differences
Equity attributable to shareholders	(2,513)	Net earnings for the period, offset by dividends declared

Cash Flows

The following chart highlights significant changes in the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 compared to the same period in 2014:

3 months ended March 31	**2015**	2014	**Primary factors explaining change**
Cash and cash equivalents, beginning of period	**23,726**	18,365	
Provided by (used in):			
Operating activities	**41,083**	45,210	Lower cash earnings of $1.8 million and unfavourable changes in working capital of $2.4 million
Investing activities	**(3,021)**	(1,052)	Increase in additions to property, plant and equipment of $1.0 million, unfavourable change in non-cash investing working capital balances of $0.4 million, unfavourable change in realized risk management loss of $0.2 million, and a decrease in proceeds on the sale of assets $0.3 million
Financing activities	**(24,949)**	(50,592)	Issuance of long-term debt of $45.0 million, partially offset by an increase in the repayment of long-term debt of $18.9 million and an increase in other financing costs of $0.4 milllion
Translation of foreign currency cash	**449**	14	Effect of the appreciation of the U.S. dollar on U.S. cash on hand
Cash and cash equivalents, end of period	**37,288**	11,945	

Debt

Long-term debt, including amounts owing to TransAlta, totalled $669.1 million at March 31, 2015 compared to $658.5 million Dec. 31, 2014. Long-term debt increased from Dec. 31, 2014 primarily due to the refinancing of our Pingston facility and unfavorable changes in foreign exchange rates, partially offset by principal repayments on the Amortizing Term Loan.

At March 31, 2015, $277.6 million of our long-term debt was due to TransAlta (Dec. 31, 2014 - $279.3 million).

Working Capital Credit Facility

We have a $100.0 million unsecured working capital credit facility with TransAlta available to us. The facility is available for general corporate purposes, including financing ongoing working capital requirements. At March 31, 2015, no amounts were drawn on the facility. The working capital credit facility is proposed to increase to $350 million following the close of the Transaction described in in the Significant and Subsequent Events section of this MD&A.

Share Capital

On March 31, 2015 and April 30, 2015, we had 114.7 million common shares issued and outstanding.

During the three months ended March 31, 2015, no common shares were issued. Information on issued Subscription Receipts is presented in the Significant and Subsequent Events section of this MD&A.

2015 OUTLOOK

Our 2015 outlook is based on our current operations, excluding the effects of the Transaction described in the Significant and Subsequent Events section of this MD&A.

Business Environment

Economic Environment

We expect low growth in Western Canada in 2015. The slowdown in the oil and gas sector is expected to cut economic growth as a result of investment slowdown and lower consumer spending. Growth in Eastern Canada is expected to improve to moderate rates in 2015, driven largely by exports supported by the U.S. recovery and the strengthening U.S. dollar.

Counterparty credit risk is monitored and we operate in accordance with our established risk management policies. We do not anticipate any material change to our existing credit practices and continue to deal primarily with investment grade counterparties.

Environmental Legislation

Alberta’s current greenhouse gas program is set to be revised in mid-2015. The value realized from our environmental attributes generated in the province may be impacted by the program’s terms. Revenue from environmental attributes generated in Alberta amounted to $3.3 million in the first quarter of 2015 and $7.5 million in the full year 2014.

On April 13, 2015, the Ontario Government announced that Ontario will be implementing a greenhouse gas (“GHG”) cap-and-trade system in an effort to reduce emissions and fight climate change. The cap-and-trade system will impose a hard ceiling on the GHG emissions allowed in each sector of the economy. The details of the cap-and-trade system (such as specifics on a potential cap, covered sectors, or anticipated launch date) currently remain absent but are to be developed through stakeholder consultations.

Operations

Production

Including production from the Wyoming Wind Farm, we expect production in 2015 to be in the range of 3,250 to 3,550 GWh.

Contracted Cash Flows

Through the use of PPAs, including the TransAlta PPAs, substantially all of our capacity is contracted over the next nine to 21 years. In addition, for 2015, approximately 75 per cent and 96 per cent of the environmental attributes from our wind and hydro facilities, respectively, have been sold.

Our contract with respect to our 10 MW Akolkolex facility is now expiring, however the current contract terms are expected to remain in place until the buyer finalizes its renewal process.

Government Incentives

Certain of our wind and hydro facilities are eligible to receive incentives under the Wind Power Production Incentive or the ecoENERGY for Renewable Power incentive programs sponsored by the Canadian federal government to encourage the development of clean power generation projects in Canada. Qualifying facilities receive specified incentive payments for every kilowatt hour of energy production for a period of up to ten years from commissioning. We are expecting a reduction in revenues in 2015 associated with the expiry of the Summerview 1 incentives in September 2014. Incentives earned at Summerview 1 amounted to $1.0 million in the full year 2014.

Operations, Maintenance, and Administration Costs

We expect OM&A costs for 2015 to remain consistent with 2014. We have long-term service agreements in place for many of our wind facilities, which allow us to stabilize costs.

Economic Interest in Wyoming Wind Farm

We expect consistent dividends from our investment in the Wyoming Wind Preferred Shares in 2015 compared to 2014.

Exposure to Fluctuations in Foreign Currencies

In 2015, we expect that we will be exposed to fluctuations in the exchange rate between the Canadian and U.S. dollars as a result of our economic interest in the Wyoming Wind Farm, as both the Wyoming Wind Preferred Shares and the related dividends received are denominated in U.S. dollars. However, these exposures will be partially offset by the U.S.-denominated Wyoming Wind Acquisition Loan, our U.S.$20.0 million debenture, and the related payment of U.S.-denominated interest thereon. Any changes in foreign investments or foreign-denominated debt, including the closing of the Transaction, may change our exposure.

All of our other assets are located in Canada, and as a result, there is minimal additional exposure to fluctuations in foreign currencies. We may acquire equipment from foreign suppliers for future capital or unplanned maintenance projects, which could create exposure to fluctuations in the value of the Canadian dollar related to these currencies.

Our strategy is to minimize the impact, if any, of fluctuations in the Canadian dollar against the U.S. dollar, euro and other currencies by entering into foreign exchange contracts, to the extent that foreign-denominated expenses and revenues do not offset.

Net Interest Expense

We are not exposed to interest rate risk from long-term debt as all instruments bear interest at a fixed rate. Net interest for 2015 is expected to be lower than 2014, primarily due to the lower carrying value and principal repayments on the Amortizing Term Loan and Wyoming Wind Acquisition Loan. However, changes in the value of the Canadian dollar relative to the U.S. dollar can affect the amount of interest expense incurred.

Liquidity and Capital Resources

If there are low wind volumes, low hydro resource, or unexpected maintenance costs, we may need additional liquidity in the future. We expect to maintain adequate available liquidity under our working capital credit facility with TransAlta.

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond by preparing and revising long-term external financing plans reflecting business plans and market availability of capital. The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

Income Taxes

The effective tax rate on earnings excluding non-comparable items for 2015 is expected to be approximately 20 to 25 per cent, which is lower than the statutory tax rate of 25 per cent, primarily due to certain earnings that are not subject to tax.

Capital Expenditures

Sustaining Capital

Our sustaining capital is comprised of the ongoing capital costs associated with maintaining the existing generating capacity of our facilities.

For 2015, our estimate for total sustaining capital, net of any contributions received, is allocated among the following:

Category	Description	Spend to date(1)(2) in 2015	Expected spend in 2015 (2)
Routine capital	Expenditures to maintain our existing generating capacity	**0.7**	1 - 2
Planned maintenance	Regularly scheduled maintenance	**1.1**	7 - 8
Total sustaining expenditures		**1.8**	**8 - 10**

Financing

Financing for these capital expenditures is expected to be provided by cash flow from operating activities and existing borrowing capacity through TransAlta.

FINANCIAL INSTRUMENTS

Refer to *Note 12* of our most recent annual consolidated financial statements and *Note 6* of our interim condensed consolidated financial statements as at and for the three months ended March 31, 2015 for details on Financial Instruments. Also refer to the Financial Instruments section of our most recent annual MD&A for additional details. Our risk management profile and practices have not changed materially from Dec. 31, 2014.

(1) As at March 31, 2015.

(2) Amounts reported in millions of dollars.

RELATED PARTY TRANSACTIONS AND BALANCES

Refer to the Related Party Transactions and Balances – Post-Acquisition Relationship with TransAlta section of our most recent annual MD&A for information about agreements and transactions with TransAlta.

Related Party Transactions

Amounts recognized from transactions with TransAlta or subsidiaries of TransAlta are as follows:

3 months ended March 31	2015	2014
Revenue from TransAlta PPAs	**10,569**	7,951
Royalty and other revenue-based costs adjustments	**133**	-
Revenue from emission reduction credits[1]	**2,240**	-
Dividend income from investment in preferred shares	**3,034**	4,365
G&A Reimbursement Fee	**2,628**	2,523
Interest expense on Amortizing Term Loan	**1,697**	1,914
Interest expense on letters of credit and guarantees	**21**	21
Interest expense on Wyoming Wind Acquisition Loan	**1,097**	1,135

[1] The value of the emission reduction credits was determined by reference to market information for similar instruments, including historical transactions with third parties, with the transaction ultimately reviewed and approved by the Corporation's independent members of the Board of Directors.

Related Party Balances

Related party balances include the following balances with TransAlta or subsidiaries of TransAlta:

As at	March 31, 2015	Dec. 31, 2014
Trade and other receivables	**16,307**	7,136
Trade accounts payable	**3,585**	3,142
Dividends payable	**10,345**	10,345
Interest payable	**934**	2,795
Investment in preferred shares	**130,378**	119,179
Net risk management assets (liabilities)	**363**	(117)
Amortizing Term Loan	**167,188**	178,364
Wyoming Wind Acquisition Loan	**110,394**	100,912
Letters of credit issued by TransAlta on behalf of the Corporation	**5,167**	4,503
Guarantees provided by TransAlta on behalf of the Corporation	**226,500**	226,500

ADDITIONAL IFRS MEASURES

An additional IFRS measure is a line item, heading, or subtotal that is relevant to an understanding of the financial statements but is not a minimum line item mandated under IFRS, or the presentation of a financial measure that is relevant to an understanding of the financial statements but is not presented elsewhere in the financial statements. We have included line items entitled "gross margin" and "operating income" in our Condensed Consolidated Statements of Earnings for the three months ended March 31, 2015 and 2014. Presenting these line items provides management and investors with a measurement of ongoing operating performance that is readily comparable from period to period.

NON-IFRS MEASURES

We evaluate our performance using a variety of measures. Those discussed below, and elsewhere in this MD&A, are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than net earnings attributable to common shareholders or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. These non-IFRS measures are not necessarily comparable to a similarly titled measure of another company.

Typically, for comparability purposes, we exclude the impact of asset impairment charges and other adjustments to earnings, such as gains on sales of assets, as management believes these transactions are not representative of our business operations. We also exclude the income tax expense related to changes in corporate income tax rates and writedowns of deferred income tax assets as these amounts do not relate to tax impacts on current earnings.

Earnings on a comparable basis per share are calculated using the weighted average common shares outstanding during the period.

Comparable operating income and EBITDA also include the dividend income from the preferred share investment associated with the Wyoming Wind Farm. The dividend income is used as a proxy for the EBITDA of the Wyoming Wind Farm.

Presenting comparable EBITDA from period to period provides management and investors with a proxy for the amount of cash generated from operating activities before net interest expense, non-controlling interest, and income taxes.

A reconciliation of comparable results to reported results is as follows:

3 months ended March 31		**2015**			2014	
	Reported	**Comparable adjustments**	**Comparable total**	Reported	Comparable adjustments	Comparable total
Revenues	**68,156**	**-**	**68,156**	67,965	-	67,965
Royalties and other costs of sales	**3,686**	**-**	**3,686**	3,999	-	3,999
Gross margin	**64,470**	**-**	**64,470**	63,966	-	63,966
Operations, maintenance, and administration	**12,159**	**-**	**12,159**	10,864	-	10,864
Taxes, other than income taxes	**1,798**	**-**	**1,798**	1,805	-	1,805
Dividend income from investment in preferred shares	**-**	**(3,034)** (1)	**(3,034)**	-	(4,365) (1)	(4,365)
Insurance recovery	**(293)**	**-**	**(293)**	-	-	-
Earnings before interest, taxes, depreciation, and amortization	**50,806**	**3,034**	**53,840**	51,297	4,365	55,662
Depreciation and amortization	**18,262**	**-**	**18,262**	18,139	-	18,139
Operating income	**32,544**	**3,034**	**35,578**	33,158	4,365	37,523
Dividend income from investment in preferred shares	**3,034**	**(3,034)** (1)	**-**	4,365	(4,365) (1)	-
Foreign exchange gain (loss)	**411**	**-**	**411**	(76)	-	(76)
Earnings before interest and taxes	**35,989**	**-**	**35,989**	37,447	-	37,447
Net interest expense	**9,229**	**-**	**9,229**	9,263	-	9,263
Income tax expense	**6,037**	**(226)** (2)	**5,811**	5,891	-	5,891
Net earnings	**20,723**	**226**	**20,949**	22,293	-	22,293
Non-controlling interest	**1,073**	**-**	**1,073**	1,159	-	1,159
Net earnings attributable to common shareholders	**19,650**	**226**	**19,876**	21,134	-	21,134
Weighted average number of common shares outstanding in the period (millions)	**114.7**	**-**	**114.7**	114.7	-	114.7
Net earnings per share attributable to common shareholders	**0.17**	**-**	**0.17**	0.18	-	0.18

(1) The dividend income is used as a proxy for operating income and EBITDA of the Wyoming Wind Farm.
(2) Income tax expense related to writedown of deferred income tax assets.

Funds from Operations

Presenting FFO from period to period provides management and investors with a proxy for the amount of cash generated from operating activities, before changes in working capital, and provides the ability to evaluate cash flow trends more readily in comparison with results from prior periods.

3 months ended March 31	**2015**	2014
Cash flow from operating activities	**41,083**	45,210
Change in non-cash operating working capital balances	**3,516**	1,144
Funds from operations	**44,599**	46,354
Weighted average number of common shares outstanding in the period (millions)	**114.7**	114.7
Funds from operations per share	**0.39**	0.40

Cash Available for Distribution

Cash available for distribution represents the amount of cash generated from operations by our business, before changes in working capital and after non-discretionary payments. Cash available for distribution can be used to invest in growth initiatives, make early principal repayments of debt, pay additional common share dividends, or repurchase common shares.

Sustaining capital for the three months ended March 31, 2015 represent total additions to PP&E and intangibles per the Consolidated Statements of Cash Flows.

The reconciliation between cash flow from operating activities and cash available for distribution is outlined below:

3 months ended March 31	**2015**	2014
Cash flow from operating activities	**41,083**	45,210
Add (deduct):		
Changes in non-cash operating working capital	**3,516**	1,144
Sustaining capital expenditures	**(1,832)**	(808)
Distributions paid to subsidiaries' non-controlling interest	**(1,308)**	(1,436)
Principal repayments of amortizing debt	**(11,176)**	(27,275)
Cash available for distribution	**30,283**	16,835
Weighted average number of common shares outstanding in the period (millions)	**114.7**	114.7
Cash available for distribution per share	**0.26**	0.15

We seek to maintain sufficient cash balances and working capital credit facilities to fund periodic net cash outflows related to our business. We maintain the ability to decide on when within the year or half-year periods amortizing term debt principal repayments are made, and optimize our cash balances accordingly. This factor explains the decrease in repayments between 2014 and 2015.

CURRENT ACCOUNTING CHANGES

There were no IFRS or other accounting policy changes adopted in the period.

FUTURE ACCOUNTING CHANGES

Accounting standards that have been previously issued by the International Accounting Standards Board but not yet effective, and which we have not yet applied include IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. Refer to the Future Accounting Changes section of our most recent annual MD&A for information regarding the requirements of IFRS 9 and IFRS 15.

IFRS 9 is effective for annual periods beginning on or after Jan. 1, 2018 and IFRS 15 is effective for annual periods beginning on or after Jan. 1, 2017. Early application is permitted for both.

We continue to assess the impact of adopting these standards on the consolidated financial statements.

SELECTED QUARTERLY INFORMATION

	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Revenue	**50,013**	**42,596**	**72,870**	**68,156**
Net earnings (loss) attributable to common shareholders	**5,890**	**(31)**	**21,665**	**19,650**
Net earnings per share attributable to common shareholders, basic and diluted	**0.05**	**-**	**0.19**	**0.17**
Comparable earnings per share	**0.05**	**-**	**0.19**	**0.17**

	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Revenue	70,940	43,535	69,949	67,965
Net earnings attributable to common shareholders	19,512	1,207	15,535	21,134
Net earnings per share attributable to common shareholders, basic and diluted	0.17	0.01	0.13	0.18
Comparable earnings per share	0.17	0.03	0.15	0.18

Our business results fluctuate with seasonal variations, with the first and fourth quarters seeing largest wind volumes and the second and third recording higher hydro volumes. As wind forms a larger part of our portfolio, higher revenues and earnings are expected in the first and fourth quarters. The second and third quarters of 2013 benefited from the higher merchant prices in Western Canada than the lower prices under the TransAlta PPAs established in August 2013 as part of the initial public offering, with Q2 2013 being the first quarter with a full period of operations at the New Richmond wind facility. In December 2013, we also acquired an economic interest in the 144 MW Wyoming Wind Farm through the purchase of preferred shares and started receiving dividends from it in Q1 2014.

FORWARD-LOOKING STATEMENTS

This MD&A, the documents incorporated herein by reference, and other reports and filings made with securities regulatory authorities include forward-looking statements. All forward-looking statements are based on our beliefs as well as assumptions based on information available at the time the assumption was made and on management's experience and perception of historical trends, current conditions, and expected future developments, as well as other factors deemed appropriate in the circumstances. Forward-looking statements are not facts, but only predictions and generally can be identified by the use of statements that include phrases such as "may", "will", "believe", "expect", "anticipate", "intend", "plan", "foresee", "potential", "enable", "continue", or other comparable terminology. These statements are not guarantees of our future performance and are subject to risks, uncertainties, and other important factors that could cause our actual performance to be materially different from that projected.

In particular, this MD&A contains forward-looking statements pertaining to our business and anticipated financial performance including, but not limited to, for example: spending on growth and sustaining capital and productivity projects; expectations in terms of the cost of operations, capital spending, and maintenance, including maintenance performed by third parties, and including the variability of those costs; expectations related to future earnings and cash flow from operating and contracting activities; incentive levels from government assistance; the recontracting of our Akolkolex Facility; the anticipated dividend from our economic interest in the Wyoming Wind Farm preferred shares on cash available for distribution; the payment of future dividends; expectations for demand for electricity in both the short term and long term, and the resulting impact on electricity prices; expectations in respect of generation availability, capacity, and production; expectations and plans for future growth, including expansion into existing and new markets and other forms of power generation and acquisition activities, including acquisition activities involving TransAlta; expectations regarding the Transaction (as defined herein), including the satisfaction of conditions and approvals, receipt of required shareholder and regulatory approvals; the total consideration payable in connection with the Transaction and the number and type of securities issuable in connection therewith, including the share terms of the Class B Shares; the effect, results and perceived benefits of the Transaction, including forecasts of CAFD and expected CAFD per share accretion, the increase to the dividend following closing of the Transaction and the expected increase to the dividend following the South Hedland project being fully commissioned; the net proceeds of the offering of subscription receipts made in connection with the Transaction and the anticipated use thereof; and the timing and completion and commissioning of projects under development, including the South Hedland project and the costs thereof; expected governmental regulatory regimes and legislation such as Alberta's greenhouse gas program and their expected impact on us, as well as the cost of complying with resulting regulations and laws; estimates of future tax rates, future tax expense, and the adequacy of tax provisions; accounting estimates; anticipated growth rates in our markets; potential legal and contractual claims; expectations for the ability to access capital markets at reasonable terms; the estimated impact of changes in interest rates and the value of the Canadian dollar relative to the U.S. dollar and the Australian dollar; the monitoring of our exposure to liquidity risk; expectations regarding entering into additional financial instruments; expectations in respect to the global economic environment; estimated cash flow required to settle decommissioning and restoration activities; and expectations regarding borrowing rates and our credit practices.

Factors that may adversely impact our forward-looking statements include risks relating to: changes in general economic conditions, including interest rates; operational risks involving our facilities, including unplanned outages at such facilities; including risks pertaining to the Transaction and offering associated with the receipt of required regulatory and shareholder approvals, the timing and cost of the construction and commissioning of the South Hedland project; disruptions in the transmission and distribution of electricity; the effects of weather; disruptions in the source of water or wind required to operate our facilities; natural disasters; the threat of domestic terrorism, cyberattacks and other man-made disasters; equipment failure and our ability to carry out repairs in a cost-effective or timely manner; industry risk and competition; fluctuations in the value of foreign currencies; the need for additional financing and the ability to access financing at a reasonable cost; structural subordination of securities; counterparty credit risk; insurance coverage; our provision for income taxes; legal and contractual proceedings involving the Corporation; reliance on key personnel; the regulatory and political environments in the jurisdictions in which we operate; increasingly stringent environmental requirements and changes in, or liabilities under, these requirements; and development projects and acquisitions. The foregoing risk factors, among others, are described in further detail in the Risk Factors section of our 2015 AIF for the year ended Dec. 31, 2014 and our 2014 Annual MD&A, both available on SEDAR at www.sedar.com.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this document are made only as of the date hereof and we do not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise, except as required by applicable laws. In light of these risks, uncertainties, and assumptions, the forward-looking events might occur to a different extent or at a different time than we have described, or might not occur. We cannot assure that projected results or events will be achieved.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of Canadian dollars, except as otherwise noted)

	3 months ended March 31	
Unaudited	**2015**	2014
Revenues	**54,755**	54,089
Government incentives	**5,956**	6,546
Lease revenue	**7,445**	7,330
Total revenue	**68,156**	67,965
Royalties and other costs of sales	**3,686**	3,999
Gross margin	**64,470**	63,966
Operations, maintenance, and administration	**12,159**	10,864
Depreciation and amortization	**18,262**	18,139
Taxes, other than income taxes	**1,798**	1,805
Insurance recovery	**(293)**	-
Operating income	**32,544**	33,158
Dividend income from investment in preferred shares *(Note 8)*	**3,034**	4,365
Net interest expense *(Note 3)*	**(9,229)**	(9,263)
Foreign exchange gain (loss)	**411**	(76)
Earnings before income taxes	**26,760**	28,184
Income tax expense *(Note 4)*	**6,037**	5,891
Net earnings	**20,723**	22,293
Net earnings attributable to:		
Common shareholders	**19,650**	21,134
Non-controlling interest *(Note 5)*	**1,073**	1,159
	20,723	22,293
Weighted average number of common shares outstanding in the period *(millions) (Note 10)*	**114.7**	114.7
Net earnings per share attributable to common shareholders, basic and diluted *(Note 10)*	**0.17**	0.18

See accompanying notes.

TRANSALTA RENEWABLES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

	3 months ended March 31	
Unaudited	**2015**	2014
Net earnings	**20,723**	22,293
Gains (losses) on derivatives designated as cash flow hedges, net of tax(1)	**(98)**	60
Total items that will not be reclassified subsequently to net earnings	**(98)**	60
Gains on derivatives designated as cash flow hedges, net of tax(2)	**11**	597
Reclassification of gains on derivatives designated as cash flow hedges to net earnings, net of tax(3)	**(5)**	(629)
Total items that will be reclassified subsequently to net earnings	**6**	(32)
Other comprehensive income (loss)	**(92)**	28
Total comprehensive income	**20,631**	22,321
Total comprehensive income attributable to:		
Common shareholders	**19,558**	21,162
Non-controlling interest *(Note 5)*	**1,073**	1,159
	20,631	22,321

(1) Net of income tax recovery of 36 for the three months ended March 31, 2015 (2014 - 20 expense).
(2) Net of income tax expense of 4 for the three months ended March 31, 2015 (2014 - 208 expense).
(3) Net of income tax expense of 2 for the three months ended March 31, 2015 (2014 - 217 expense).

See accompanying notes.

TRANSALTA RENEWABLES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

Unaudited	**March 31, 2015**	Dec. 31, 2014
Cash and cash equivalents	**37,288**	23,726
Accounts receivable	**47,277**	35,667
Prepaid expenses	**3,125**	1,395
Risk management assets *(Note 6)*	**474**	15
	88,164	60,803
Property, plant, and equipment *(Note 7)*		
Cost	**2,023,066**	2,029,682
Accumulated depreciation	**(395,003)**	(379,402)
	1,628,063	1,650,280
Intangible assets	**96,694**	98,660
Risk management assets *(Note 6)*	**4**	5
Other assets	**3,121**	2,981
Investment in preferred shares *(Note 8)*	**130,378**	119,179
Deferred income tax assets	**32,941**	32,249
Total assets	**1,979,365**	1,964,157
Accounts payable and accrued liabilities	**31,568**	30,893
Risk management liabilities *(Note 6)*	**1**	9
Income taxes payable	**222**	405
Dividends payable *(Note 10)*	**14,714**	14,714
Current portion of deferred revenue	**425**	425
Current portion of long-term debt *(Note 9)*	**162,041**	194,951
	208,971	241,397
Long-term debt *(Note 9)*	**507,072**	463,504
Decommissioning provisions	**17,038**	16,287
Deferred revenues	**6,446**	6,552
Deferred income tax liabilities	**201,717**	195,534
Risk management liabilities *(Note 6)*	**114**	128
Total liabilities	**941,358**	923,402
Equity		
Common shares *(Note 10)*	**1,223,845**	1,223,845
Deficit	**(223,596)**	(221,175)
Accumulated other comprehensive income	**146**	238
Equity attributable to shareholders	**1,000,395**	1,002,908
Non-controlling interest *(Note 5)*	**37,612**	37,847
Total equity	**1,038,007**	1,040,755
Total liabilities and equity	**1,979,365**	1,964,157

Contingencies *(Note 11)*
Significant and subsequent events *(Note 13)*

See accompanying notes.

TRANSALTA RENEWABLES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

Unaudited	Common shares	Deficit	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2014	1,223,845	(221,175)	238	1,002,908	37,847	1,040,755
Net earnings	-	19,650	-	19,650	1,073	**20,723**
Other comprehensive loss:						
Net losses on derivatives designated as cash flow hedges, net of tax	-	-	(92)	(92)	-	**(92)**
Total comprehensive income	-	19,650	(92)	19,558	1,073	**20,631**
Common share dividends	-	(22,071)	-	(22,071)	-	**(22,071)**
Distributions to non-controlling interest	-	-	-	-	(1,308)	**(1,308)**
Balance, March 31, 2015	**1,223,845**	**(223,596)**	**146**	**1,000,395**	**37,612**	**1,038,007**

Unaudited	Common Shares	Deficit	Accumulated other comprehensive income	Attributable to shareholders	Attributable to non-controlling interest	Total
Balance, Dec. 31, 2013	1,223,845	(196,263)	187	1,027,769	39,290	1,067,059
Net earnings	-	21,134	-	21,134	1,159	22,293
Other comprehensive income:						
Net gains on derivatives designated as cash flow hedges, net of tax	-	-	28	28	-	28
Total comprehensive income	-	21,134	28	21,162	1,159	22,321
Common share dividends	-	(7,357)	-	(7,357)	-	(7,357)
Distributions to non-controlling interest	-	-	-	-	(1,436)	(1,436)
Balance, March 31, 2014	1,223,845	(182,486)	215	1,041,574	39,013	1,080,587

See accompanying notes.

TRANSALTA RENEWABLES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	3 months ended March 31	
Unaudited	**2015**	2014
Operating activities		
Net earnings	**20,723**	22,293
Depreciation and amortization	**18,263**	18,139
Accretion of provisions *(Note 3)*	**261**	220
Deferred income tax expense *(Note 4)*	**5,526**	5,319
Unrealized foreign exchange (gain) loss	**(418)**	60
Unrealized (gain) loss from risk management activities	**(13)**	46
Other non-cash items	**257**	277
Cash flow from operations before changes in working capital	**44,599**	46,354
Change in non-cash operating working capital balances	**(3,516)**	(1,144)
Cash flow from operating activities	**41,083**	45,210
Investing activities		
Additions to property, plant, and equipment *(Note 7)*	**(1,832)**	(832)
Proceeds on sale of assets	**-**	312
Realized risk management gain (loss)	**(139)**	100
Change in non-cash investing working capital balances	**(1,051)**	(632)
Other	**1**	-
Cash flow used in investing activities	**(3,021)**	(1,052)
Financing activities		
Issuance of long-term debt *(Note 9)*	**45,000**	-
Long-term debt repayments *(Note 9)*	**(46,176)**	(27,275)
Dividends paid on common shares *(Note 10)*	**(22,071)**	(21,881)
Distributions to non-controlling interest	**(1,308)**	(1,436)
Other	**(394)**	-
Cash flow used in financing activities	**(24,949)**	(50,592)
Cash flow from (used in) operating, investing, and financing activities	**13,113**	(6,434)
Effect of translation on foreign currency cash	**449**	14
Increase (decrease) in cash and cash equivalents	**13,562**	(6,420)
Cash and cash equivalents, net of bank overdraft, beginning of period	**23,726**	18,365
Cash and cash equivalents, end of period	**37,288**	11,945
Cash income taxes paid	**694**	592
Cash interest paid	**8,224**	7,208

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Tabular amounts in thousands of Canadian dollars, except as otherwise noted)

1. BACKGROUND AND ACCOUNTING POLICIES

A. The Corporation

TransAlta Renewables Inc. ("TransAlta Renewables" or the "Corporation") has been formed to own a portfolio of renewable and, potentially, natural gas power generation facilities or other infrastructure assets. The Corporation owns 12 hydroelectric ("hydro") facilities and 16 wind farms in Canada and holds an economic interest in a wind farm in the United States (U.S.). The Corporation's head office is located in Calgary, Alberta.

B. Basis of Preparation

These unaudited interim condensed consolidated financial statements have been prepared by management in compliance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using the same accounting policies as those used in the Corporation's most recent annual consolidated financial statements. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Corporation's annual consolidated financial statements. Accordingly, these should be read in conjunction with the Corporation's most recent annual consolidated financial statements which are available on SEDAR at www.sedar.com.

The unaudited interim condensed consolidated financial statements include the accounts of the Corporation and the subsidiaries that it controls.

The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are stated at fair value.

The unaudited interim condensed consolidated financial statements reflect all adjustments that consist of normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of results. The Corporation's results are partly seasonal due to the nature of electricity, which is generally consumed as it is generated; and the nature of wind and run-of-river hydro resources, which fluctuate based on both seasonal patterns and annual weather variation. Typically, run-of-river hydro facilities generate most of their electricity and revenues during the spring and summer months when melting snow starts feeding watersheds and rivers. Inversely, wind speeds are historically greater during the cold winter months and lower in the warm summer months.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2015.

C. Use of Estimates

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires management to use judgment and make estimates and assumptions that could affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosures of contingent assets and liabilities. These estimates are subject to uncertainty. Actual results could differ from these estimates due to factors such as fluctuations in interest rates, foreign exchange rates, inflation and commodity prices, and changes in economic conditions, legislation, and regulations. Refer to Note 2(Q) of the Corporation's most recent annual consolidated financial statements for a more detailed discussion of the significant accounting judgments and key sources of estimation uncertainty.

2. ACCOUNTING CHANGES

Accounting standards that have been previously issued by the International Accounting Standards Board but are not yet effective, and have not been applied by the Corporation include IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. Refer to Note 3 of the Corporation's most recent annual consolidated financial statements for information regarding the requirements of IFRS 9 and IFRS 15.

IFRS 9 is effective for annual periods beginning on or after Jan. 1, 2018 and IFRS 15 is effective for annual periods beginning on or after Jan. 1, 2017. Early application is permitted for both.

The Corporation continues to assess the impact of adopting these standards on its consolidated financial statements.

3. NET INTEREST EXPENSE

The components of net interest expense are as follows:

	3 months ended March 31	
	2015	2014
Interest on long-term debt	**8,986**	9,025
Interest on letters of credit and guarantees pledged by TransAlta	**21**	21
Interest income	**(39)**	(3)
Accretion of provisions	**261**	220
Net interest expense	**9,229**	9,263

4. INCOME TAXES

The components of income tax expense are as follows:

	3 months ended March 31	
	2015	2014
Current income tax expense	**511**	572
Adjustments in respect of deferred income tax of previous years	**-**	93
Deferred income tax expense arising from the writedown of deferred tax assets	**226**	-
Deferred income tax expense related to the origination and reversal of temporary differences	**5,300**	5,226
Income tax expense	**6,037**	5,891

Presented in the Condensed Consolidated Statements of Earnings as follows:

	3 months ended March 31	
	2015	2014
Current income tax expense	**511**	572
Deferred income tax expense	**5,526**	5,319
Income tax expense	**6,037**	5,891

5. NON-CONTROLLING INTEREST

The Corporation's non-controlling interest is comprised of Natural Forces Technologies Inc.'s 17% interest in Kent Hills 1 and 2 ("Kent Hills") wind farms. Summarized financial information relating to 100% of Kent Hills is as follows:

	3 months ended March 31	
	2015	2014
Results of operations		
Revenues	**10,366**	10,839
Net earnings and total comprehensive income	**6,315**	6,818

As at	**March 31, 2015**	Dec. 31, 2014
Financial position		
Current assets	**7,174**	6,654
Long-term assets	**216,776**	218,950
Current liabilities	**(2,164)**	(2,452)
Long-term liabilities	**(540)**	(520)
Total equity	**(221,246)**	(222,632)

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. Financial Assets and Liabilities – Measurement

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

B. Fair Value of Financial Instruments

I. Financial Instruments – Measured at Fair Value

The Corporation's commodity-based risk management assets and liabilities relate to trading activities and certain contracting activities. Other risk management assets and liabilities include risk management assets and liabilities that are used in hedging foreign currency exposures.

The following table summarizes the net risk management assets (liabilities) as at March 31, 2015 and Dec. 31, 2014:

	Cash flow hedges	Non-hedges	Non-hedges	Total		
	Level II	Level II	Level III	Level II	Level III	Total
Net risk management assets (liabilities) at March 31, 2015	**28**	**449**	**(114)**	**477**	**(114)**	**363**
Net risk management assets (liabilities) at Dec. 31, 2014	14	(3)	(128)	11	(128)	(117)

The level classifications and additional information regarding measurement of fair value are described in Note 12(B) of the Corporation's most recent annual consolidated financial statements.

II. Financial Instruments – Not Measured at Fair Value

The fair value of long-term debt is as follows:

	Fair value				Total carrying
	Level I	Level II	Level III	Total	value
Long-term debt[(1)] - March 31, 2015	**-**	**690,871**	**-**	**690,871**	**669,113**
Long-term debt[(1)] - Dec. 31, 2014	-	682,121	-	682,121	658,455

(1) Includes current portion

The fair value of the Corporation's debentures is determined using prices observed in secondary markets. The fair value of other long-term debt is determined by calculating an implied price based on a current assessment of the yield to maturity.

The book value of other short-term financial assets and liabilities (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable) approximates fair value due to the liquid nature of the asset or liability.

The Corporation's investment in preferred shares continues to be measured at cost under similar conditions as described in the Corporation's most recent annual financial statements.

C. Nature and Extent of Risks Arising from Financial Instruments and Derivatives

The following discussion is limited to specific risk measures, which are more fully discussed in Note 12(C) of the Corporation's most recent annual consolidated financial statements.

I. Credit Risk

The Corporation's maximum exposure to credit risk at March 31, 2015, without taking into account collateral held or right of set-off, is represented by the current carrying amounts of accounts receivable and risk management assets as per the Condensed Consolidated Statements of Financial Position.

The Corporation uses external credit ratings, as well as internal ratings in circumstances where external ratings are not available, to establish credit limits for counterparties. As at March 31, 2015, all of the Corporation's counterparties were considered investment grade.

At March 31, 2015, the Corporation had two unrelated customers whose outstanding balances each accounted for greater than 10 per cent of the total third party trade accounts receivable outstanding. The Corporation has evaluated the risk of default related to these customers to be minimal.

II. Liquidity Risk

The following table presents the contractual maturities of the Corporation's financial liabilities as at March 31, 2015:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
Accounts payable and accrued liabilities	31,568	-	-	-	-	-	**31,568**
Long-term debt	150,432	69,500	24,413	299,604	26,423	101,088	**671,460**
Net risk management (assets) liabilities	(468)	(8)	2	2	2	107	**(363)**
Interest on long-term debt (1)	20,205	24,072	21,640	13,738	3,958	6,414	**90,027**
Dividends payable	14,714	-	-	-	-	-	**14,714**
Total	**216,451**	**93,564**	**46,055**	**313,344**	**30,383**	**107,609**	**807,406**

(1) Not recognized as a financial liability on the Condensed Consolidated Statements of Financial Position.

The Corporation manages liquidity risk associated with debentures due in 2015 and beyond through preparing and revising long-term external financing plans reflecting business plans and market availability of capital.

7. PROPERTY, PLANT, AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant & equipment ("PP&E") is as follows:

	Hydro generation	Wind generation	Capital spares and other	Total
As at Dec. 31, 2014	191,057	1,450,287	8,936	1,650,280
Additions	**363**	**1,360**	**109**	**1,832**
Depreciation	**(1,790)**	**(14,010)**	**-**	**(15,800)**
Adjustment with TransAlta	**-**	**(8,507)**	**265**	**(8,242)**
Revisions and additions to decommissioning costs	**319**	**171**	**-**	**490**
Retirements	**-**	**(497)**	**-**	**(497)**
As at March 31, 2015	**189,949**	**1,428,804**	**9,310**	**1,628,063**

During the quarter, the Corporation recognized an adjustment to give effect to an indemnity from TransAlta for the benefit of the Corporation in respect to a dispute for final disbursements in relation to a construction project completed prior to the formation of the Corporation. As a result, as at March 31, 2015, the Corporation has recognized a receivable from TransAlta of $10.0 million offset by a reduction to PP&E of $8.2 million and the recognition of a liability of $1.2 million in excess of a previously recognized accounts payable amount.

8. INVESTMENT IN PREFERRED SHARES

The investment in preferred shares as at March 31, 2015 and Dec. 31, 2014 is comprised of the U.S.$102.7 million investment in Class A preferred shares of a subsidiary of TransAlta, and represents the Corporation's economic interest in TransAlta Wyoming Wind LLC., whose only operation is the Wyoming Wind Farm.

The preferred shares entitle the holder to receive monthly, cumulative cash dividends that are based on, and track to, the pre-tax earnings and distributions of TransAlta Wyoming Wind LLC. Dividends received are recognized in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

Summarized financial information relating to TransAlta Wyoming Wind LLC is a follows:

3 months ended March 31	**2015**	2014
Results of operations		
Revenues	**5,266**	7,546
Net earnings and total comprehensive income	**2,370**	5,016
Cash flows		
Additions to PP&E	**269**	-

As at	**March 31, 2015**	Dec. 31, 2014
Financial position		
Current assets	**7,963**	4,867
Long-term assets	**130,435**	120,315
Current liabilities	**(659)**	(1,487)
Long-term liabilities	**(3,902)**	(3,577)
Equity	**(133,837)**	(120,118)

Dividend income from the preferred shares associated with the Wyoming Wind Farm was $3.0 million for the period ended March 31, 2015 (2014 - $4.4 million), all of which was based on pre-tax earnings of TransAlta Wyoming Wind LLC.

9. LONG-TERM DEBT

A. Amounts Outstanding

As at	March 31, 2015			Dec. 31, 2014		
	Carrying value	**Face value**	**Interest[1]**	Carrying value	Face value	Interest[1]
Unsecured debentures[2]	**346,762**	**348,878**	**5.91%**	344,201	346,698	5.91%
Secured debenture	**44,769**	**45,000**	**2.95%**	34,978	35,000	5.28%
Amortizing Term Loan	**167,188**	**167,188**	**4.00%**	178,364	178,364	4.00%
Wyoming Wind Acquisition Loan[3]	**110,394**	**110,394**	**4.00%**	100,912	100,912	4.00%
	669,113	**671,460**		658,455	660,974	
Less: current portion	**(162,041)**	**(162,041)**		(194,951)	(194,951)	
Total long-term debt	**507,072**	**509,419**		463,504	466,023	

(1) Interest rate reflects the stipulated rate or the average rate weighted by principal amounts outstanding.

(2) Includes U.S.$20.0 million (2014 - U.S.$20.0 million).

(3) U.S.$87.0 million (2014 - U.S.$87.0 million).

On Feb. 11, 2015, the Corporation and its partner refinanced maturing debt at the Pingston hydro facility. The Corporation's share of gross proceeds was $45 million. The bonds bear interest at the annual fixed interest rate of 2.95 per cent, payable semi-annually with no principal repayments until maturity in May 2023. Proceeds were used to repay the $35 million secured debenture bearing interest at 5.28 per cent.

The Corporation has a $100.0 million working capital credit facility with TransAlta. As at March 31, 2015 and Dec. 31, 2014, no amounts were drawn on this facility. The working capital credit facility is proposed to be amended and increased to $350 million following the close of the investment described in Note 13.

The Corporation anticipates refinancing its maturing debt based on reasonable commercial terms.

B. Restrictions

Unsecured debentures include restrictive covenants requiring the proceeds received from the sale of certain assets to be reinvested into similar renewable assets.

10. COMMON SHARES

A. Authorized and Outstanding

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. The common shares entitle the holders thereof to one vote per share at meetings of shareholders. The preferred shares are issuable in series and have such rights, restrictions, conditions, and limitations as the Board of Directors (the "Board") may from time to time determine.

The Corporation had 114.7 million issued and outstanding common shares as at March 31, 2015 and Dec. 31, 2014. No preferred shares have been issued.

B. Dividends

The declaration of dividends on the Corporation's common shares is at the discretion of the Board.

The following table summarizes the common share dividends declared within the three months ended March 31, 2015 and 2014:

Dividends declared	Total dividends per share	Total dividends	TransAlta	Other shareholders
Period ended March 31, 2015	**0.19248**	**22,071**	**15,516**	**6,555**
Period ended March 31, 2014	0.06416	7,357	5,172	2,185

C. Earnings per Share

Basic earnings per share is based on net earnings attributable to the common shareholders and is calculated based upon the weighted average number of common shares outstanding during the periods presented. The Corporation has no dilutive or potentially dilutive instruments.

11. CONTINGENCIES

In the normal course of business, the Corporation may become party to litigation claims. There are currently no known claims that the Corporation has determined as significant enough to require disclosure.

12. RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation has entered into certain agreements and transactions with TransAlta which are discussed in more detail in Note 24 of the Corporation's most recent annual consolidated financial statements.

A. Related Party Transactions

Related party transactions include the dividend income from the investment in preferred shares disclosed in Note 8 and the interest on letters of credit and guarantees pledged by TransAlta disclosed in Note 3.

Significant related party transactions that are not otherwise presented elsewhere consist of the following:

	3 months ended March 31	
	2015	2014
Revenue from TransAlta PPAs	**10,569**	7,951
Royalty and other revenue-based costs adjustment	**133**	-
Revenue from emission reduction credits[1]	**2,240**	-
G&A Reimbursement Fee	**2,628**	2,523
Interest expense on Amortizing Term Loan	**1,697**	1,914
Interest expense on Wyoming Wind Acquisition Loan	**1,097**	1,135

[1] The value of the emission reduction credits was determined by reference to market information for similar instruments, including historical transactions with third parties, with the transaction ultimately reviewed and approved by the Corporation's independent members of the Board of Directors.

All of these transactions are with TransAlta or subsidiaries of TransAlta.

B. Related Party Balances

Related party balances include the investment in preferred shares, the risk management assets and liabilities, as well as the Amortizing Term Loan, Wyoming Wind Acquisition Loan, and credit facility disclosed in Note 9.

Significant related party balances that are not otherwise presented elsewhere consist of the following:

As at	**March 31, 2015**	Dec. 31, 2014
Trade and other receivables	**16,307**	7,136
Trade accounts payable	**3,585**	3,142
Interest payable	**934**	2,795
Dividends payable	**10,345**	10,345
Letters of credit issued by TransAlta on behalf of the Corporation	**5,167**	4,503
Guarantees provided by TransAlta on behalf of the Corporation	**226,500**	226,500

All of these balances are with TransAlta or subsidiaries of TransAlta.

13. SIGNIFICANT AND SUBSEQUENT EVENTS

On March 23, 2015, the Corporation entered into an investment agreement with TransAlta, pursuant to which it has agreed to acquire an economic interest based on the cash flows of TransAlta's Australian power generation and gas pipeline portfolio of assets ("Australian Assets") held by TransAlta Energy (Australia) Pty Ltd. ("TEA"), and fund the remaining construction costs for the South Hedland Power Station Project, for a combined value of approximately $1.78 billion. The Australian Assets presently consist of 575 MW of power generation from six gas-fuelled operating facilities and the 150 MW South Hedland Project, as well as the recently commissioned 270 kilometre gas pipeline. The Investment Agreement provides the Corporation with certain protections in relation to exchange rates, the cost to complete the construction of South Hedland, and the timing of the commencement of its commercial operation. The Corporation's investment will consist of the acquisition of securities of TEA which will provide the Corporation a priority return on invested capital, and tracking preferred shares issued by another subsidiary of TransAlta, which will provide an economic interest based on cash flows of the Australian Assets broadly equal to the underlying net distributable profits of TEA. TransAlta will continue to own, manage, and operate the Australian Assets.

The Corporation intends to finance the investment through a combination of cash and shares issued to TransAlta. The cash consideration payable to TransAlta will be raised through an equity offering.

TransAlta will receive $1,284 million as consideration pursuant to the Transaction (the "Transaction") through a combination of Common Shares and Class B Shares in the capital of the Corporation as well as cash. The Class B Shares will provide voting rights equivalent to the Common Shares and are non-dividend paying, but will convert to Common Shares when the South Hedland project is fully commissioned. The number of Common Shares that TransAlta receives on the conversion of the Class B Shares will be adjusted based on the actual amount that the Corporation funds for the construction and commissioning of the South Hedland project relative to the budgeted costs. In the event that the construction amount funded by the Corporation exceeds the budgeted costs, TransAlta will receive fewer Common Shares upon conversion and, comparably, TransAlta will receive more Common Shares in the event the Corporation funds less than the budgeted costs. The remaining budgeted costs to be funded by TransAlta Renewables in connection with the construction and commissioning of the South Hedland project are approximately $490 million, which are expected to be funded through a combination of internally generated cash flow and borrowings under a credit facility.

On April 8, 2015, TransAlta Renewables issued a final short form prospectus qualifying the distribution of 15,820,000 subscription receipts (each, a "Subscription Receipt") at a price of $12.65 per Subscription Receipt for gross proceeds of approximately $200 million. The offering closed on April 15, 2015. In addition, TransAlta Renewables granted an over-allotment option to the underwriters, exercisable at any time within 30 days following closing of the offering, to purchase up to 2,373,000 Subscription Receipts at the same price for gross proceeds of up to approximately $30 million. The underwriters exercised in part the over-allotment option and purchased 2,038,423 Subscription Receipts. The over-allotment option closed on April 23, 2015. The Corporation expects to receive approximately $226 million in gross proceeds ($215 million in net proceeds).

Closing of the Transaction is expected to occur in May 2015 and is subject to approval by the Corporation's shareholders (excluding TransAlta). The Corporation has received the regulatory approvals.

GLOSSARY OF KEY TERMS

Amortizing Term Loan - An unsecured, Amortizing Term Loan from TransAlta, with an initial amount in 2013 of $200 million.

Capacity - The rated continuous load-carrying ability, expressed in megawatts, of generation equipment.

G&A Reimbursement Fee – The fee payable to TransAlta under the Management, Administrative and Operational Services Agreement to compensate TransAlta for the provision of all the general administrative services as may be required or advisable for the management of the affairs of the Corporation.

Gigawatt - A measure of electric power equal to 1,000 megawatts.

Gigawatt Hour (GWh) - A measure of electricity consumption equivalent to the use of 1,000 megawatts of power over a period of one hour.

Greenhouse Gas (GHG) - Gases having potential to retain heat in the atmosphere, including water vapour, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, and perfluorocarbons.

Megawatt (MW) - A measure of electric power equal to 1,000,000 watts.

Megawatt Hour (MWh) - A measure of electricity consumption equivalent to the use of 1,000,000 watts of power over a period of one hour.

Net Maximum Capacity - The maximum capacity or effective rating, modified for ambient limitations, that a generating unit or power plant can sustain over a specific period, less the capacity used to supply the demand of station service or auxiliary needs.

PPA – A power purchase and sale agreement between a power generator and a third-party acquirer of electricity.

Renewable Power - Power generated from renewable terrestrial mechanisms including wind, hydro, geothermal, and solar with regeneration.

TransAlta PPAs – PPAs between TransAlta and the Corporation providing for the purchase by TransAlta, for a fixed price, all of the power produced by certain wind and hydro facilities. The initial price payable in 2013 by TransAlta for output was $30.00/MWh for wind facilities and $45.00 per MWh for hydro facilities, which amounts are adjusted annually for changes in the Consumer Price Index.

Unplanned Outage - The shutdown of a generating unit due to an unanticipated breakdown.

Working Capital Credit Facility - A $100 million unsecured working capital credit facility with TransAlta. The facility is available for general corporate purposes including financing ongoing working capital requirements.

Wyoming Wind Acquisition Loan – An unsecured loan from TransAlta to fund the acquisition of the economic interest in the 144 MW wind farm in Wyoming with an initial amount in 2013 of U.S. $102 million.

Wyoming Wind Preferred Shares – A U.S.$102.7 million investment in Class A Preferred Shares of a TransAlta subsidiary to acquire the economic interest in the 144 MW wind farm in Wyoming.

TransAlta Renewables Inc.
110 - 12th Avenue S.W.
Box 1900, Station “M”
Calgary, Alberta Canada T2P 2M1
Phone
403.267.7110

Website
www.transaltarenewables.com

CST Trust Company
P.O. Box 700 Station “B”
Montreal, Québec
H3B 3K3
Phone
Toll-free in North America: 1.800.387.0825
Toronto/outside North America: 416.682.3860
E-mail
inquiries@canstockta.com
Fax
514.985.8843
Website
www.canstockta.com

Additional Information
Requests can be directed to:

Investor Inquiries
Phone
1.800.387.3598 in Canada and United States
or 403.267.2520
E-mail
investor_relations@transalta.com

Media Inquiries
Toll-free 1.855.255.9184
or 403.267.2540